

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC17009

Project Name	Piloting Equity Financing for SMEs in Morocco (P150928)
Region	MIDDLE EAST AND NORTH AFRICA
Country	Morocco
Sector(s)	SME Finance (50%), Other non-bank financial intermediaries (50%)
Theme(s)	Micro, Small and Medium Enterprise support (50%), Other Private Sector Development (30%), Export development and competitiveness (10 %), Technology diffusion (10%)
Lending Instrument	Investment Project Financing
Project ID	P150928
Borrower(s)	Government of Morocco
Implementing Agency	La Caisse Centrale de garantie
Environmental Category	C-Not Required
Date PID Prepared/ Updated	08-Jun-2016
Date PID Approved/ Disclosed	10-Jun-2016
Estimated Date of Appraisal Completion	15-Aug-2016
Estimated Date of Board Approval	15-Sep-2016
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Morocco's political landscape has been relatively stable over the past decades. The Arab Spring in early 2011 spurred a peaceful political transformation in the country. The King responded by launching a comprehensive program of reforms, including the drafting of a new Constitution adopted through a referendum in July 2011. A new ruling coalition led by the Justice and Development Party (PJD) was formed in October 2013. Growth is projected to reach 5 percent in 2016 however, this has been insufficient to reduce unemployment, which has held at 9-10 percent since 2006. It is estimated that Morocco needs to reach annual growth rates of 6-7 percent to absorb new entrants into the labor market and generate greater wealth for all.

A World Bank survey featured Morocco as a regional leader in providing SMEs with access to credit (by end-2011, SMEs reached 10.8 percent of GDP representing 20 percent of bank loans to

companies and 27 percent of companies? financing through bank loans and leasing). However, start-ups and younger SMEs continue to face challenges in accessing credit especially as they do not have any track record to enable banks to assess their risk nor the requisite collateral. Through this Project, the Government of Morocco seeks to address the deficit in the availability of financing for start-ups and early stage SMEs and foster a more dynamic innovative private sector. The Project will establish a funding facility to provide equity financing at the seed, early and Venture Capital (VC) stages to young, growing and innovative firms and provide the necessary support through mentoring and other non-financial support to ensure that these start-ups grow and create jobs.

Sectoral and Institutional Context

The Moroccan VC and startup investment market is nascent in terms of available and deployed capital, number of transactions, deal flow (number of viable start-ups in the pipeline), and overall activities in the entrepreneurship ecosystem. The country VC penetration ratio was recorded at close to 0.08 percent (2014 GDP) better than Egypt's 0.077 percent but lagging far behind Jordan and Lebanon. Specifically the gap in the Moroccan financing market lies at the initial stages of a company's establishment, stabilization and growth; in equity investment this is equivalent to the categories of: seed (ticket sizes US\$30,000 - US\$100,000), early stage (US\$100,000 - US\$500,000) and VC (US\$500,000 - US\$2m). At a micro scale, there are some Moroccan Business Angels beginning to be active but they are at the earliest possible stage in the creation of a network primarily focused in Casablanca. On the other end of the scale, several private equity funds are working but at a preferred intervention level mainly in the US\$2m and above range with businesses that are already generating a revenue stream entailing lower transaction costs and risk usually associated with younger companies. Early stage seed funds have also been stimulated as public private partnerships and are working at a small scale with teams that are beginning to develop the skills and competences needed by this stage of finance.

Morocco's ecosystem for innovation and entrepreneurship is beginning to develop (with a couple of promising private sector led incubators) but needs further support if it is to generate an appropriate quality and quantity of deals for the emerging investment community. In part stronger ecosystem players will emerge as more early stage funds become available because of the effect on demand but more needs to be done to build a truly vibrant supporting system by adding to the scale and quality of supply. A key objective would be a stronger flow of quality deals in innovative business ideas that are ready for investment. Once critical mass is built better conditions will be created to assist the innovative firms to prosper and grow so stimulating a flow of successful exits which is also a key issue to address in building a strong ecosystem.

Relationship to CAS

12. The proposed project is fully aligned with the World Bank Group's twin goals of ending extreme poverty and boosting shared prosperity as well as with the Bank President's goal on addressing financial inclusion as reflected in the Finance and Markets' Global Practice Financial Inclusion Strategy. By providing access to financing to a group of entrepreneurs and firms that are currently unserved by the traditional financial lending systems the proposed project will widen opportunities for these groups to gain economic opportunities, overcome poverty and/or risk of poverty and achieve prosperity. This objectives are also aligned with the WBG MENA Regional Strategy including its wider goal to promote dynamic private sector development for job creation.

13. According to the Morocco Country Partnership Strategy (CPS) for FY2014-17, to achieve

stronger growth rates, Morocco will need a structural transformation of its economy, with a focus on broadening economic opportunities. This will need to include an improved business environment with a financial sector that better serves smaller and newer firms. More specifically, the proposed Project will complement several of the proposed strategic outcomes of the new CPS, including: enhancing the business environment with a more supportive institutional framework for business entry, trade facilitation and SME development (1.1); and improving access to finance to, micro, small and young firms, that include most of the youth and women who are under-served in terms of employment opportunities, non-financial support and access to commercial credit (1.2). The Project will also complement the Government of Morocco's 2012-2016 Program, which specifically sets ? greater support to SMEs? as a target.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The Project Development Objective is to improve access to equity financing for the creation and development of high growth potential SMEs, and facilitating equity capital leveraging private sector financing.

Key Results (From PCN)

The Project Key Results Indicators that will be measured are:

1. Number of firms receiving risk capital through the Project fund including private sector co-investment.
2. Amount of private sector financing mobilized as co-investment.
3. Percentage of enterprises supported that achieve increase in sales one year after receiving financing.

III. Preliminary Description

Concept Description

The Government of Morocco under this proposed project will establish and finance a program aimed at developing risk capital financing for innovative startups and SMEs (less than 5 years). The Project encompasses both supply and demand side interventions. From the supply side, it will provide financing for the startup/seed-, early-, and venture capital stages. This type of public involvement in supporting the supply of risk capital finance is a tested model used by many governments as a way to fill the financing gap for young innovative entrepreneurs. On the demand side, the proposed Project will help develop a Moroccan Business Angel Network and support strategic programs focusing on the creation of innovative startups and getting them ready to be presented to investors through concept development grants, boot camps, training, mentoring and other relevant activities.

The Project has a tenure of six years and funding will be distributed among three components:

Component 1: Financing Program \$US 42 million

This component will establish a finance facility to initiate Angel/Early Stage and Venture Capital (VC) funds leveraging private sector co-investment. The objective of this component is to cover the gap in the commercial market and enable new enterprises to access appropriate risk capital as they are established and develop. Under this component, the resources will be divided along two financing windows (Subcomponents):

Subcomponent 1a - Angel/Early Stage (\$US 12 million): Build the Angel finance industry that is currently weak through co-financing deals in the range of USD \$100,000 to \$500,000; and Subcomponent 2a - Venture Capital (\$US 30 million): Co-investing with the private sector in funds that will finance deals in the range of USD \$500,000 to \$1.5 million in ventures that have already been established and are looking to scale up their business to the next level.

Clear guidelines on appropriate governance and transparency mechanisms in the management and selection of investments will be specified in the project Operation Manual (OM). Guidelines will apply best practice commercial standards where the public sector role rests at the higher level supervision with respect to achieving the development indicators and ensuring proper management is being done while the investments are led and decided on by private sector management.

Component 2: Ecosystem support for deal flow creation \$US 6 million

This Component will include 2 subcomponents to provide grant funding support to organizations within the entrepreneurship ecosystem to build capacity, provide value adding services and thus improve the quality and quantity of investible ventures for the broader initiative. This includes a specific element to build the angel investment ecosystem. Funding under this component will be distributed under the following two subcomponents:

Subcomponent 2a - Pre-Seed Grants (\$US 3million): aimed at activities to test the viability of a business idea before a company has been formed; and

Subcomponent 2b - Ecosystem Support (\$US 3million): to support the continued development of the nascent Moroccan ecosystem in order to continue to improve the quality and quantity of entrepreneurial ventures able to be funded by the financial instruments.

Component 3: Project Management, Coordination, and Monitoring and Evaluation \$US 2 million

This component will fund the Project Management Unit (PMU) and all its basic operations, and administrative costs for the management and supervision of the project over the loan lifetime (6 years). This component will also fund expenses related to the call for proposals, evaluation, and selection of partner funds and ecosystem service providers who will implement the activities, training of PMU and CCG staff, marketing and outreach of the project specifically to the regions (website, conferences), legal and administrative costs including fiduciary, and monitoring and evaluation.

Implementation

The Caisse Centrale de Garantie (CCG) will manage the project on behalf of the Government of the Kingdom of Morocco (GOM). It will house the PMU. The selection of private fund managers and partners in the ecosystem who will deliver the activities will be done through a competitive process. The CCG is a specialized public credit institution dedicated to promoting the development of MSMEs by offering loans and guarantees to bank loans to this segment. It has the mandate to set up companies and special purpose vehicles that can hold equity stakes in funds and investee companies. The CCG reports to the Ministry of Economy and Finance and the Central Bank of Morocco.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		x	
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10		x	
Involuntary Resettlement OP/BP 4.12		x	
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	50.00	Total Bank Financing:	50.00
Financing Gap:	0.00		
Financing Source			Amount
Borrower			0.00
International Bank for Reconstruction and Development			50.00
Total			50.00

VI. Contact point**World Bank**

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